BUSINESS BEST PRACTICES: LESSONS FOR SMALL AND MEDIUM-SIZED ENTERPRISES

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ABSTRACT

Findings of past studies suggest that business best practices can help companies to become successful. Nevertheless, a review of the management literature reveals that questions have been raised as to whether the best practices identified in the earlier studies are applicable and relevant to all kinds of companies, including the small and medium-sized enterprises (SMEs). Based on the review of five most documented studies on business best practices, this paper attempts to examine and compare the best practices promoted and prescribed in the management literature. The evidence from the review of the studies indicates that successful companies not only adopted different best business practices but these practices varied from study to study as well as contradicted each other.

INTRODUCTION

Business best practices have attracted much attention among practitioners, consultants and scholars. The review of the literature indicates that the interest and research on business best practices continue to grow. The theoretical and research focus on best business practices resulted from the strong belief that these practices could help improve organizational competitiveness and performance.

The profitability, growth and survival of business organizations depend on how well they conduct as well as manage their businesses. In conducting their businesses, some companies have seen outstanding successes while others have been dismal failures. In most cases, the successful companies are able to perform well because of good internal management and business practices. For the less successful companies, most frequently, they barely survive because of inefficiency and misdirected business operations as well as practices.

The notion that the adoption of best practices can result in superior organizational performance has also attracted much research attention. The literature reveals that over the years numerous studies have attempted to investigate the best business practices that can help companies to improve their performance as well as sustain their competitive advantage. Many of these studies have focused on examining the management practices of successful and excellent companies. These studies have strived to scrutinize the practices of excellent companies in an effort to identify as well as learn the best business practices that separate the high performing firms from the low performing firms.

Among the most documented studies on best business practices are Marcus (2006), Joyce, Nohria and Roberson (2003), Collins (2001), Collins and Porras (1994), and Peters and Waterman (1982). These studies investigated and promoted the best business practices that drive the performance of successful companies. Each study claimed to have found a universal set of best business practices that can contribute to the growth and continued success of companies.

Although there is increasing evidence that suggests certain business practices are associated with organizational performance, the best business practices adopted by the successful companies vary tremendously. Furthermore, a review of the findings of previous studies indicated that these studies disagree with each other (Makridakis, 1996; Hiltrop, 1996; & Capon, Farley, Hulbert & Lei, 1991). The disagreement in turn has raised questions among researchers, practitioners, and academicians as to whether there are universal best business practices that can be adopted successfully by other companies.

Additionally, Owen (2009), Rosenzweig (2007) and Rivas-Micoud (2006) indicated in their works that searching for universal best business practices is futile. More specifically, these authors claimed that effective business practices only work for one firm at one particular time. According to these scholars, best business practices are not universal but unique to each particular company. Best business practices are about what fit and what work for a particular firm at any one time. These authors further suggested that business best practices change from time to time, from company to company, from business to business and from industry to industry.

The purpose of this paper is to examine and compare the best business practices as documented in five influential studies. By reviewing the studies, the paper hopes to show that the best business practices promoted and prescribed in the past studies are not universal but unique to each particular firm operating under certain circumstances. For this purpose, the paper is divided into three sections. The following second section of the paper explains briefly each of the five most documented studies as well as presents their findings. The third section provides a brief conclusion of the paper.

Business Best Practices

Best business practices have long excited tremendous interest among management theorists, consultants, practitioners and academicians. Over the years, the interest in best practices has attracted much research attention. The literature reveals that throughout the 1980s and 2000s, researchers have conducted a number of studies to identify, capture and learn the best business practices of successful companies. Among the five most documented studies are Peters and Waterman (1982), Collins and Porras (1994), Collins (2001), Joyce, Nohria and Roberson (2003) and Marcus (2006). All these studies were published into business books. When these books first appeared, they became national and international best selling business books. Since their release, millions of copies were sold throughout the world. Accordingly, the section below explains each of the five studies and the best practices they identified.

Best Practices Introduced by Peters and Waterman

Peters and Waterman (1982) conducted one of the earliest and most documented studies on best business practices among excellent companies in the United States of America (USA). This study attracted much attention and interest. It was published into a book called, *In Search of Excellence: Lessons from America's Best-Run Companies*. The book became an instant bestseller at the time. The data for the study was collected through interviews. By using the interview method, the researchers gathered the data from 43 excellent American companies. The 43 companies that were involved in the study represented six different industries. Table 2.1 lists the companies that participated in the study according to their industries.

Table 2.1

Excellent Companies Surveyed

Company	Industry
1. Allen-Bradley	High technology
2. Amdahl	High technology
3. Digital Equipment	High technology
4. Emerson Electric	High technology
5. Hewlett-Packard	High technology

(continued)

Company	Industry
6. International Business Machines	High technology
7. Schlumberger	High technology
8. Texas Instruments	High technology
9. Eastman Kodak	Consumer goods
10. Frito-Lay (PepsiCo)	Consumer goods
11. Johnson & Johnson	Consumer goods
12. Proctor & Gamble	Consumer goods
13. Caterpillar Tractor	General industrial
14. Dana Corporation	General industrial
15. Minnesota Mining & Manufacturing	General industrial
16. Delta Airlines	Service
17. Marriot	Service
18. McDonald's	Service
19. Bechtel	Project management
20. Boeing	Project management
21. Fluor	Project management
22. Data General	High technology
23. Hughes Aircraft	High technology
24. Intel	High technology
25. National Semiconductor	High technology
26. Raychem	High technology
27. Wang Labs	High technology
28. Atari	Consumer goods
29. Avon	Consumer goods
30. Bristol-Myers	Consumer goods
31. Chesebrough-Ponds	Consumer goods
32. Levi Strauss	Consumer goods
33. Mars	Consumer goods
34. Maytag	Consumer goods
35. Merck	Consumer goods
36. Revlon	Consumer goods

(continued)

Company	Industry
37. Tupperware (Dart & Kraft)	Consumer goods
38. Disney Productions	Service
39. Kmart	Service
40. Wal-mart	Service
41. Dow Chemical	Resource based
42. Du Pont	Resource based
43. Standard Oil (Indiana)/Amoco	Resource based

Source: Peters and Waterman (1982)

The research conducted by Peters and Waterman found that the excellence companies that participated in the study adopted eight types of best practices. The study, the eight best practices identified and introduced by these authors included:

1. A bias for action (preference for doing something-anything).
2. Staying close to the customers (learning their preferences and catering to them).
3. Autonomy and entrepreneurship (breaking the corporation into small companies and encouraging them to think independently and competitively).
4. Productivity through people (creating in all employees the awareness that their best efforts are essential and that they will share in the rewards of the company's success).
5. Hands-on, value-driven (insisting that executives keep in touch with the firm's essential business).
6. Stick to knitting (remaining with the business the company knows best).
7. Simple form, lean staff (few administrative layers, few people at the upper levels).
8. Simultaneous loose-tight properties (fostering a climate where there is dedication to the central values of the company combined with a tolerance for all employees who accept those values).

Best Practices Championed by Collins and Porras (1994)

Following the study conducted by Peters and Waterman, Collins and Porras (1994) undertook a six-year research project to investigate the success of visionary companies. The data for the study was gathered from selected 18 visionary companies and 18 comparison companies. The companies that were involved in the study are shown in Table 2.2. According to the researchers, the 18 visionary companies chosen in the study had not only been successful over a long period of time, but had also stood the test of time. Collins and Porras were also able to publish their study into the book titled, *Built to Last: Successful Habits of Visionary Companies*. This book also became an instant best selling business book.

Table 2.2

The Companies Selected for the Study

Visionary Company	Comparison Company
1. 3M	1. Norton
2. American Express	2. Wells Fargo
3. Boeing	3. McDonell Dougla
4. Citicorp	4. Chase Manhattan
5. Ford	5. GM
6. General Electric	6. Westinghouse
7. Hewlett-Packard	7. Texas Instruments
8. IBM	8. Burroughs
9. Johnson &Johnson	9. Bristol-Myers Squibb
10. Marriot	10. Howard Johnson
11. Merck	11. Pfizer
12. Motorola	12. Zenith
13. Nordstrom	13. Melville
14. Philip Morris	14. RJR Nabisco
15. Proctor & Gamble	15. Colgate

(continued)

Visionary Company	Comparison Company
16. Sony	16. Kenwood
17. Wal-Mart	17. Ames
18. Walt Disney	18. Columbia

Source: Collins and Porras (1994)

The results of the study indicated that the 18 visionary companies were successful as a result of adopting six different kinds of best practices. However, these six best practices totally differed from the earlier eight practices found in the study by Peters and Waterman (1981). Among the six best practices found in the study conducted by Collins and Porras and championed by these authors were:

1. Having strong core ideology that guides the company's decisions and behaviour.
2. Building a strong corporate culture.
3. Setting audacious goals that can inspire and stretch people.
4. Developing people and promoting them from within.
5. Creating a spirit of experimentation and risk-taking.
6. Driving for excellence.

Best Practices Promoted by Collins

Not long after the book, *Built to Last: Successful Habits of Visionary Companies*, was published and became a best selling business book, Jim Collins (2001) undertook another study. In this study, the researcher attempted to examine how ordinary companies make the shift to become successful companies. More specifically, in the study, Collins wanted to investigate how good companies become great companies. Over a period of five years, Collins and his team analysed the histories of 28 companies that were involved in the study. These 28 companies consisted of eleven good-to-great companies, eleven direct comparisons, and six unstained comparisons. Table 2.3 presents the 28 companies that participated in the study. Similarly, this study was also successfully published into a book called, *Good to Great.* This book also became a best selling business book.

Table 2.3

The Companies Involved in the Study

Good-to- Great Company	Direct Comparison Company
1. Abbot	1. Upjohn
2. Circuit City	2. Silo
3. Fannie Mae	3. Great Western
4. Gillette	4. Warner-Lambert
5. Kimberly-Clark	5. Scott Paper
6. Kroger	6. A&P
7. Nucor	7. Bethlehem Steel
8. Philip Morris	8. R.J. Reynolds
9. Pitney Bowes	9. Addressograph
10. Walgreens	10. Eckerd
11. Wells Fargo	11. Bank of America
	Unstained Comparisons
	1. Burroughs
	2. Chrysler
	3. Harris
	4. Hasbro
	5. Rubbermaid
	6. Teledyne

Source: Collins (2001)

Unlike the two earlier studies, the findings of the research conducted by Collins showed that the 11 good-to-great companies adopted another five different best practices. The five best practices found in the study not only varied widely but also contradicted the findings of the previous studies carried out by Peters and Waterman (1981) and Collins and Porras (1994). The five best practices discovered and promoted in the study are as follows:

1. Level 5 Leaders (humble and great leaders).
2. The Hedgehog Concept (simplicity).
3. A culture of discipline (plus entrepreneurship).
4. Technology Accelerators (using technology to enforce progress).
5. The Flywheel and the Down Loop (those who launch radical change programmes and wrenching restructurings will almost certainly fail to make the leap).

Best Practices Advocated by William Joyce, Nitin Nohria, and Bruce Roberson

A more recent study called the Evergreen Project also initiated another attempt to identify and capture the fundamental practices that can help to create success among business organizations. The Evergreen Project involved 50 leading academics and consultants in the United States of America. These researchers used well accepted research tools and procedures to identify, collate and analyse ten years of data based on 160 companies and more than 200 management practices. This study was also published into a business book. The full title of the book is *What Really Works*.

Based on the analyses of the data collected, the study uncovered eight management practices that directly correlated with high organizational performance. These eight management practices consisted of four primary and four secondary practices. According to the study, successful companies simultaneously mastered six specific management practices. These include four of the primary practices and two of the secondary practices.

Based on this finding, the study developed the 4+2 formula to help managers achieve lasting business success. Once again, the eight management practices found in this study differed remarkably from the best practices identified in the previous studies mentioned above. The eight management practices advocated by the Evergreen Project are:

a) The Four Primary Management Practices:
   1. Strategy (devise and maintain a clearly stated, focused strategy).
   2. Execution (develop and maintain flawless operational execution).
   3. Culture (develop and maintain a performance-oriented culture).
   4. Structure (build and maintain a fast, flexible flat organization).

b) The Four Secondary Management Practices:
   1. Talent (hold on to talented employees and find more).
   2. Leadership (keep leaders and directors committed to business).
   3. Innovation (make innovations that are industry transforming).
   4. Mergers and Partnerships (make growth happen with mergers and partnerships).

Best Practices Prescribed by Alfred A. Marcus

Marcus (2006) conducted a more recent study on business best practices. In this particular study, the researcher strived to compare the companies in the United States of America that have achieved long-term success with companies that have experienced persistent failure. In the study, the author labelled companies that have achieved long-term success (high-performing companies) as winners and companies that have experienced persistent failure (poor-performing companies) as losers. This study made a comparison between the nine winners and nine losers that represented nine different business sectors. This study, too was published in a book called, *Big Winners and Big Losers*. Table 2.4 presents the 18 companies were analysed in the study. These companies represented nine different business sectors.

Table 2.4

Companies that were Analyzed in the Study

Winning Companies		Losing Companies		Sector/Industry	
1.	Amphenol	1.	LSI Logic	1.	Technology
2.	SPX	2.	Snap-On	2.	Software
3.	Fiserv	3.	Parametric Technology	3.	Manufacturing /appliance
4.	Dreyer's	4.	Campbell Soup	4.	Food
5.	Forest Labs	5.	IMC Global	5.	Drugs/ chemicals
6.	Ball	6.	Goodyear	6.	Manufacturing /industrial
7.	Brown & Brown	7.	Safeco	7.	Financial
8.	Family Dollar	8.	Gap	8.	Retail
9.	Activision	9.	Hasbro	9.	Entertainment /toys

Source: Marcus (2006)

According to the results of the study, there were four best business practices that drove the winning companies to perform better than their competitors. On the other hand, the losing companies were not able to perform as well because of four poor business practices that they adopted. Interestingly, the business practices found among the successful companies in this study also varied significantly from the best practices identified by the four earlier studies presented above. The four best practices and the four poor practices in the study are as follows:

a) Best Practices of Big Winners:
   1. A sweet spot (discovered an attractive industry position).
   2. Adaptive (being able to get to an uncontested space).
   3. Disciplined (protecting an uncontested space).
   4. Focused (exploiting an uncontested space).

b) Poor Practices of Big Losers:
   1. Stuck in sour spot (being in a contested space).
   2. Rigid (not able to get to an uncontested space).
   3. Inept (inability to protect an uncontested space).
   4. Diffuse (inability to exploit an uncontested space).

CONCLUSION

This paper attempted to examine and compare the best business practices that help to drive the performance of successful companies. The best practices were identified based on the review of the five most documented studies in the management literature. The review of the five studies indicated that the successful companies involved in the studies adopted at least 31 different best practices. In addition, evidence from the review showed that the best practices identified in each of the studies were not only immensely different from one and another, but they also contradicted each other.

The contrast in the best practices of the companies in the five studies further suggests that these best business practices are not universal but may be unique to each company. Given this, the best business practices found in the studies may not be applicable to all companies. As indicated by Owen (2009), Rosenzweig (2007), Rivas-Micoud (2006), Makridakis (1996), Hiltrop (1996) and Capon, Farley, Hulbert and Lei, (1991), best practices are concerned with what fit and what work for a particular company at any one time. As such, best practices may only be effective for one firm at one particular time.

Furthermore, the variations in the best practices discovered in the studies may have resulted from the adoption of different research methodologies to collect and analyse the data from the successful companies involved in the studies. According to Makridakis (1996) and Hiltrop (1996) and Capon et al. (1991), and Rosenzweig (2007), the sample selection of the successful companies, methods of measurement and analyses used in the previous studies on business best practices may not have been rigorous.

In view of the limitations and problems associated with the methodologies adopted and the variation of the best practices identified in the past studies, it is not wise for companies, especially small and medium-sized enterprises (SMEs) to imitate these best practices blindly. In particular, when there is inadequate empirical evidence to indicate that they can actually help companies to improve their organizational performance.

In the case of SMEs, they would stand a better chance of success by developing and sustaining their own distinctive capabilities. Equiped with their distinctive capabilities and the abilities to size up and make sense of the continuous changes occurring in their business environment, SMEs can become more competitive. More importantly, for SMEs to be able to do this, they will need to identify and develop their competencies as well as seek new strategic directions. With the new strategic directions and competencies, SMEs will be able to develop their own unique best practices that can not only help them to improve their performance but also sustain their competitive advantage.

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